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¶1. (U) Summary. This is Volume 8, issue 13 of U.S. Embassy Pretoria's South Africa Economic News Weekly Newsletter.

Topics of this week's newsletter are:
- CPIX Soars
- Employment Up 0.8%
- Heineken to Open Brewery in SA
- Nissan Expands Truck Production Facility
- Concerns about Electricity-Price Increase - Government and ANC Disagree
- SADC Closer to Single Tourism Visa
- Tourist-Friendly Program Launched
- Private Sector to Participate in Government's West Coast Cable Project
- EASSY Cable Project Begins Construction
- Government Set to Reduce Telecom Costs to Promote Call Centers
End Summary.

CPIX Soars

¶2. (U) CPIX inflation (consumer price inflation excluding mortgage interest rates) surged from 8.6% y/y in January to 9.4% y/y in February, according to Statistics South Africa (StatsSA). This increase represented a five-year peak. Higher food and fuel prices were the main drivers of inflation. CPIX inflation has breached its 3%-6% target range for 11 months running and is expected to peak near 10% next month, as the rand's depreciation and looming hikes in electricity tariffs feed into prices. The South African Reserve Bank (SARB) has raised interest rates by four percentage points since June 2006 in a bid to stem inflation, but so far the effect has only been seen in waning consumer demand, the main engine of economic growth in the past. This is worrying analysts at a time when the global economy is slowing and an electricity crisis is also curbing growth. SARS Governor Tito Mboweni said he would take "whatever action was needed to anchor inflation expectations at the low side" and that there was no danger of "overdosing" the economy with higher interest rates. "If there is an overdose of any medicine, there is a danger of killing the patient. I don't think we are in that situation now. We have seen much higher interest rates," he said. Prime lending rates set by commercial banks stand at 14.5%, their highest level in eight years, but well below a peak

of more than 25% in 1998. At its latest policy meeting in January, SARB kept interest rates steady, giving more weight to the threat to growth than the deteriorating inflation outlook, which stems mainly from rising global food and oil prices. Some analysts believe this will remain the case when the SARB's monetary policy committee (MPC) meets on April 9-10, but local money markets are now pricing in an 80%-90% chance of another rate hike. "It seems clear that the MPC is now more concerned about inflation than growth and will pick up where it left off in December," said Lehman Brothers Analyst Peter Attard Montalto. (Business Day, March 26, 2008)

Employment Up 0.8%

¶3. (U) The number of people employed in South Africa's non-agricultural sectors increased by 0.8% from the third quarter to the fourth quarter of 2007, according to Statistics South Africa (StatsSA) data. Consumer demand helped support the retail and financial services sector, increasing employment in those sectors by 2.2% and 1.2%, respectively, in the fourth quarter. StatsSA reported that manufacturing sector jobs fell by 0.5% in the fourth Qreported that manufacturing sector jobs fell by 0.5% in the fourth quarter while employment in the mining industry was steady. Unemployment decreased from 25.5% in March 2007 to 23.0% in September 2007. Analysts have said while unemployment may be showing a downward trend it remains high as the workforce is largely unskilled, a legacy of apartheid. High unemployment and poverty have clouded economic gains since the end of apartheid in 1994 and are seen as the main reason for the high level of violent crime. (Business Day, March 27, 2008)

Heineken to Open Brewery in SA

¶4. (U) International brewer Heineken will build its new $407 million South African brewery in the Sedibeng area south of Johannesburg. Heineken Regional President for Africa and Middle East Tom de Man said that the location of the brewery was based on more than just

geology, geography and infrastructure. "We are also very aware that southern Johannesburg is an area that will benefit enormously from new commercial investment, which will in turn assist and enable social and economic progress in the whole area," he said. The company announced early in March that it would build the brewery, in which the British company Diageo would own a 25% stake, to brew a range of Heineken and Diageo brands. The brewery will replace capacity Heineken lost in the South African local market when it terminated its contract with local brewer SAB last year. The Sedibeng brewery site would have an initial capacity of three-million hectolitres, with the flexibility to expand. Work was already under way on the site and construction is expected to be completed by the end of 2009. The company anticipated that the brewery would initially create some 225 new, permanent jobs and a considerable number of new, service-related outsourcing opportunities. Heineken would provide technical training for South African personnel in South Africa and abroad. (Engineering News, March 26, 2008 and Business News, March 27, 2008)

Nissan Expands Truck Production Facility

¶5. (U) Local truck company Nissan Diesel South Africa (NDSA) officially opened its new R10.9 million ($1.3 million) production and warehouse facilities in South Africa. The facility upgrades would enable Nissan Diesel to boost its production from the current 4,500 units to 9,000 trucks a year. NDSA said that it had expanded the physical truck assembly building and installed additional equipment to ease assembly processes. "With the benefit of increased production capability and the launch of our new flagship model range this week, we are intent on strengthening our position even further," said NDSA Chief Executive Hiroshi Yokofujita. NDSA is currently the third-largest truck-seller in South Africa. (Engineering News, March 25, 2008)

Concerns about Electricity-Price Increase - Government and ANC Disagree
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¶6. (U) South Africa's cabinet said on March 20 that the response to state utility Eskom's request to raise electricity tariffs by as much as 60% "was understandable, but premature", qualifying the request as a proposal subject to consideration by the regulator and stakeholders. The National Regulator of South Africa (NERSA) announced that it would take three months to respond to Eskom's request. The government came out in support of Eskom's proposed 60% electricity price increase, saying it was needed to cover sharp increases in fuel costs and to implement an accelerated demand side management program. The significant new build program would be funded by other sources. The government said, "South Africans must come to terms with the reality that it would be difficult for Eskom to continue providing the cheapest electricity rate in the world." The ruling African National Congress party spoke out against the increase, saying that the price hike would have "adverse effects on Qincrease, saying that the price hike would have "adverse effects on the daily lives of the poor people," as well as inflationary effects. Meanwhile, Eskom reported that it was still waiting for some mines to come forward with requested information to make the determination on how to allocate the extra five% of poorer requirements offered to deep mines. Easter break brought some relief and stability to the tight South African power system, so the risk of load-shedding was low during the week of March 24. (Sunday Times, Engineering News, March 20-23, 2008)

SADC Closer to Single Tourism Visa

¶7. (U) The Southern Africa Development Community (SADC) has agreed to speed up the process of establishing a single visa (a Univisa) for tourists. The decision was taken at a ministerial conference in Luanda, Angola last week, and was announced by South African Deputy Tourism Minister Rejoice Mabudafhasi on March 25. The conference also encouraged removal of obstacles to the movement of SADC citizens within the region through bilateral agreements, which include visa waivers. The nine member states which have signed the protocol on the free movement of citizens are Botswana, the DRC, Lesotho, Mozambique, Namibia, South Africa, Swaziland, Tanzania and Zimbabwe. Mabudafhasi said: "Statistics of foreign arrivals gathered in the past few years provide clear evidence that the SADC region is amongst the top preferred destinations by tourists in the world. Noting this encouraging development, the Inter-Ministerial

Committee representing SADC member states is currently exploring further avenues such as the Univisa to optimize tourism income. The Univisa is expected to operate similarly to the European Schengen visa system. (Business Report, March 26, 2008)

Tourist-Friendly Program Launched

¶8. (U) South African Tourism (SA Tourism) CEO Moeketsi Mosola said the country needs to develop a tourist-friendly mind-set to meet its 2010 tourism targets to attract 10 million foreign tourists. He warned that South Africa's competitiveness would depend on its ability to offer affordable air travel, increasing skills development in the tourism industry, tourism product development and tackling crime and security head on. Mosola said that though tourism was "one of the biggest success stories" of the past decade, SA needed to "move up a gear" to meet its target by 2010. To educate the nation, and young South Africans in particular, SA Tourism has launched a series of lectures on university campuses this year to raise public awareness. The Global Competitive Program by Tourism SA aims to highlight areas where focused attention and investment will improve the visitor experience, grow the number of arrivals and develop the economic contribution objectives, Mosola said. Between September 2006 and September 2007 more than nine million tourists visited SA, a 9% y/y increase and above the global growth average of 5.6%. According to Mosola, the industry created more than one million jobs in the past 15 years but there was ignorance among South Africans about the economic value of tourism and the need to grow a tourist-friendly mind-set.

Private Sector to Participate in Government's
West Coast Cable Project

¶9. (U) State-owned broadband infrastructure company Broadband Infraco has secured private sector participation for its fiber-optic, submarine cable project from South Africa along the west coast of Africa to the UK. The companies expected to sign a shareholders agreement on April 15 were Telkom, Neotel, Tenet, Tata Communications, Multichoice, Vox Telecom, Internet Solutions, Gateway Communications, Equator Telecom Nigeria, and British Telecom. Broadband Infraco, through the Department of Public Enterprises, would hold a 26% stake in the cable and its capacity, and the remaining 74% was earmarked for the private sector. A memorandum of understanding outlining the principles of operation was signed at the end of February between Broadband Infraco and the private sector participants. The percentage of the total capital input invested by a company would translate into the percentage of the broadband capacity that the company would get once the cable was operational. It was understood that the principles agreed to allow each participant to determine their own market pricing of bandwidth on the system. Bids from suppliers to construct the system were already under evaluation by the consortium members, and supply contracts were scheduled to be signed before end April. The cable Qcontracts were scheduled to be signed before end April. The cable is expected to enter service during the first half of 2010. The system made provision for about 12 landing stations along the African West coast, which could be built at a later stage. (Engineering News, March 27, 2008)

EASSY Cable Project Begins Construction

¶10. (U) Construction on the fiber-optic East African Submarine Cable System (EASSY) project, which would connect 21 East and Southern African countries to each other and the rest of the world, started on March 27. According to press reports, the supply contract for installation of the cable is now in force. The International Finance Corporation (IFC), the African Development Bank, the Agence Frangaise de Dveloppement, KfW of Germany, and the European Investment Bank, were partnering to provide the project's long-term loan financing of $70.7 million, with $18.2 million coming from IFC. The $247.1 million balance would be provided by the 25 consortium members. (Engineering News, March 27, 2008)

Government Set to Reduce Telecom
Costs to Promote Call Centers

¶11. (U) Business Trust Chief Executive Brian Whittaker said a government announcement reducing telecoms costs for call centers,

necessary to ramp up foreign investment in the sector, was expected within a month. Whittaker explained that global spending on call centers, or business processing outsourcing, was expected to increase by $60 billion over five years. But with local telecoms costs 74% higher than those in India, investment in South Africa was being held back. Public Works Minister Thoko Didiza confirmed that the government would make the announcement. Whittaker said: "I believe an announcement is imminent in lowering the cost specific to outsourcing operators linked to the Department of Trade and Industry's incentive scheme." He hoped the cut would result in a lower cost than India's. A 2 megabit line in South Africa costs R 146,000 ($18,000) a month, while in India it costs R 84,000 ($10,300) a month. He said there had been long discussions between the government and fixed-line operator Telkom. The trade and industry department's incentive scheme for outsourcing firms includes grants for new investments and training. Business Trust trains unemployed people to work in the sector. Call centers are included as a priority in the government's Accelerated and Shared Growth Initiative for South Africa (ASGISA). Business Trust hopes to create a total of 100,000 outsourcing-linked jobs by December ¶2009. (Business Report, March 26, 2008)

TEITELBAUM